

Report on
Examination

**YATES TOWNSHIP
DIAL-A-RIDE
TRANSPORTATION SYSTEM**

LAKE COUNTY

September 30, 2006

**Local Audit and Finance Division
Bureau of Local Government Services**

YATES TOWNSHIP DIAL-A-RIDE

TRANSPORTATION SYSTEM

YATES TOWNSHIP BOARD

Donel Brown
Supervisor

Esther Ward
Treasurer

Doris Strauss
Clerk

Nicollette McClure
Trustee

Ann Fant
Trustee

DIAL-A-RIDE

Vedra Gant
Director

Candace Fisher
Bookkeeper

YATES TOWNSHIP POPULATION--2000

714

STATE EQUALIZED VALUE--2006

\$46,704,796



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

ROBERT J. KLEINE
STATE TREASURER

November 9, 2006

Yates Township
Dial-A-Ride
P.O. Box 147
Idlewild, Michigan 49642

RE: Unqualified Opinion on Basic Financial Statements and Supplementary
Schedule of Expenditures of Federal and State Awards--Governmental Entity

Independent Auditor's Report

Dear Board Members:

We have audited the accompanying financial statements of the Yates Township Dial-A-Ride, a component unit of Yates Township, Lake County, as of and for the year ended September 30, 2006, as listed in the Table of Contents. These financial statements are the responsibility of the Dial-A-Ride's management. Our responsibility is to express opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Yates Township Dial-A-Ride as of September 30, 2006, and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated November 9, 2006 on our consideration of the Yates Township Dial-A-Ride's internal control over financial reporting and our tests on its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and

the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the Yates Township Dial-A-Ride, taken as a whole. The accompanying supplemental information in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. With the exception of Schedule 3 marked "unaudited," the information on the schedules has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements, taken as a whole.

The Management's Discussion and Analysis on pages 1 through 4 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division

YATES TOWNSHIP DIAL-A-RIDE

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YATES TOWNSHIP DIAL-A-RIDE

MANAGEMENT'S DISCUSSION AND ANALYSIS

Using this Annual Report

Our discussion and analysis of the Yates Township Dial-a-Ride's financial performance provides an overview of the Dial-A-Ride's financial activities for the fiscal year ended September 30, 2006. This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Revenue, Expenses, and Changes in Net Assets provide information about the activities of the Dial-A-Ride and present a longer-term view of their finances.

Overview of the Financial Statements

This annual report consists of three parts--management's discussion and analysis (this section), the basic financial statements, and an additional section that presents supplemental information and schedules. The basic financial statements include two kinds of statements that present different views of the Dial-A-Ride:

- The first two statements are financial statements that provide both long-term and short-term information about the Dial-A-Ride's overall financial status. These statements report information about the Dial-A-Ride, as a whole, using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the Dial-A-Ride's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Revenue, Expenses, and Changes in Net Assets regardless of when cash is received or paid. The two statements report the Dial-A-Ride's net assets and how they have changed. "Net assets" is the difference between the assets and liabilities--this is one way to measure the Dial-A-Ride's financial health or position.
- The remaining Statement of Cash Flows is to demonstrate the activities of the Dial-A-Ride as it relates to cash flows from operating activities, cash flows from noncapital financing activities, cash flows from capital and related financing, and cash flows from investing activities.

Reporting the Dial-A-Ride as a Whole

The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets report information about the Dial-A-Ride, as a whole, and about its activities in a way that helps answer the question of whether the Dial-A-Ride, as a whole, is better off or worse off as a result of the year's activities. The Statement of Net Assets include all of the Dial-A-Ride's assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Assets regardless of when cash is received or paid.

YATES TOWNSHIP DIAL-A-RIDE

MANAGEMENT'S DISCUSSION AND ANALYSIS

The two statements, mentioned above, report the Dial-A-Ride's net assets and how they have changed. The reader can think of the Dial-A-Ride's net assets (the difference between assets and liabilities) as one way to measure the Dial-A-Ride's financial health or financial position. Over time, increases or decreases in the Dial-A-Ride's net assets are one indicator of whether its financial health is improving or deteriorating, respectively. To assess the overall health of the Dial-A-Ride you need to consider additional nonfinancial factors such as changes in the county's property tax base, the condition of the Dial-A-Ride's buses, and changes in the laws related to the operating assistance received from the Federal and State government.

Financial Analysis of the Dial-A-Ride as a Whole

The Dial-A-Ride's net assets decreased approximately 9.5%, or \$253,725, from \$2,677,798 to \$2,424,073 for the year ended September 30, 2006. The net assets and change in net assets are summarized below.

Net Assets

The unrestricted net assets decreased by \$31,679 and the investment in capital assets decreased by \$222,046 during 2006. The decrease in the investment in capital assets decreased due to the depreciation on the capital asset.

Net assets as of year ended September 30, 2006 are as follows:

	<u>2005</u>	<u>2006</u>	<u>Variance</u>
Current and Other Assets	\$1,624,171	\$1,619,149	\$ (5,022)
Net Capital Assets	<u>1,070,414</u>	<u>848,368</u>	<u>(222,046)</u>
Total Assets	<u>2,694,585</u>	<u>2,467,517</u>	<u>(227,068)</u>
Current Liabilities	<u>16,787</u>	<u>43,444</u>	<u>26,657</u>
Total Liabilities	<u>16,787</u>	<u>43,444</u>	<u>26,657</u>
Net Assets			
Invested in Capital Assets			
Net of Related Debt	1,070,414	848,368	(222,046)
Unrestricted	<u>1,607,384</u>	<u>1,575,705</u>	<u>(31,679)</u>
Total Net Assets	<u>\$2,677,798</u>	<u>\$2,424,073</u>	<u>\$(253,725)</u>

YATES TOWNSHIP DIAL-A-RIDE

MANAGEMENT'S DISCUSSION AND ANALYSIS

Changes in Net Assets

	<u>2005</u>	<u>2006</u>	<u>Variance</u>	<u>%</u>
Operating Revenue				
Charges for Services	\$ 554,152	\$ 366,695	\$ (187,457)	-33.83%
Nonoperating Revenue				
Local Contributions	24,568	13,385	(11,183)	-45.52%
Tax Levy	155,338	145,861	(9,477)	-6.10%
State of Michigan Operating Grants	504,264	560,669	56,405	11.19%
Federal Operating Grants	161,584	244,816	83,232	51.51%
Interest Earned	36,628	46,956	10,328	28.20%
Prior Year Adjustments		133	133	100.00%
Nontransportation Revenue	<u>17,079</u>	<u>20,013</u>	<u>2,934</u>	<u>17.18%</u>
Total Revenue	<u>1,453,613</u>	<u>1,398,528</u>	<u>(55,085)</u>	<u>-3.79%</u>
Operating Expense				
Salaries and Wages	972,896	996,696	23,800	2.45%
Depreciation	223,461	222,047	(1,414)	-0.63%
Other	<u>411,096</u>	<u>433,510</u>	<u>22,414</u>	<u>5.45%</u>
Total Operating Expense	<u>1,607,453</u>	<u>1,652,253</u>	<u>44,800</u>	<u>2.79%</u>
Income (Loss) Before Capital Contributions	(153,840)	(253,725)	(99,885)	64.93%
Capital Contributions			-	
Increase in Net Assets	(153,840)	(253,725)	(99,885)	64.93%
Beginning Net Assets	<u>2,831,638</u>	<u>2,677,798</u>	<u>(153,840)</u>	<u>-5.43%</u>
Ending Net Assets	<u>\$ 2,677,798</u>	<u>\$ 2,424,073</u>	<u>\$ (253,725)</u>	<u>-9.48%</u>

The charges for services decreased as a result of a discontinued program with Ludington Mass Transit and special transportation funding being cut by state and local agencies.

Increases in expenses include the increased cost of diesel fuel, the cost of health insurance is constantly rising as well as the cost of living increases. We experienced a reduction in the charges for services as other governmental units such as Department of Human Services reduced contracts and ridership to implement their budget cuts. The federal operating and state operating assistance grants both increased this year also.

YATES TOWNSHIP DIAL-A-RIDE

MANAGEMENT'S DISCUSSION AND ANALYSIS

Capital Asset Administration

As of September 30, 2006, the Dial-A-Ride had \$1,070,414 invested in capital assets. This amount represents a net decrease (including additions and deductions) of \$223,461 or 20.88% as follows:

	2005	2006	Total Percentage Change 2005-2006
Capital Assets Being Depreciated			
Building	\$ 360,211	\$ 360,211	0.00%
Bus Garage	266,804	266,804	0.00%
General Equipment	146,032	24,863	-82.97%
Buses	1,671,076	1,550,321	-7.23%
Local Equipment	37,145		-100.00%
Subtotal	2,481,268	2,202,199	-11.25%
Total Capital Assets	2,481,268	2,202,199	-11.25%
Total Accumulated Depreciation	1,410,854	1,353,832	-4.04%
Total Net Capital Assets	<u>\$ 1,070,414</u>	<u>\$ 848,367</u>	<u>-20.74%</u>

Debt

The Yates Township Dial-A-Ride does not have any long-term debt.

Economic Factors and Next Year's Budget

The 2006/2007 budget will increase due to increases in fuel costs and fringe benefit programs that continue to drive up the cost of doing business. To offset the increasing costs, the Dial-A-Ride system has begun receiving county-wide millage funds in 2005.

Contacting the Dial-A-Ride's Management

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the Dial-A-Ride's finances and to show accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the director's office at P.O. Box 147, Idlewild, Michigan 49642.

**YATES TOWNSHIP DIAL-A-RIDE
STATEMENT OF NET ASSETS
September 30, 2006**

EXHIBIT A

ASSETS

Current Assets	
Cash	\$ 1,574,977
Accounts Receivable--General	18,219
Due From County	<u>25,953</u>
Total Current Assets	<u>1,619,149</u>
Noncurrent Assets	
Capital Assets (Net of Accumulated Depreciation)	<u>848,368</u>
Total Noncurrent Assets	<u>848,368</u>
Total Assets	<u><u>\$2,467,517</u></u>

LIABILITIES AND FUND EQUITY

Current Liabilities	
Accounts Payable	\$ 9,604
Due to State	21,423
Accrued Payroll	12,151
Other Payroll Liabilities	<u>266</u>
Total Current Liabilities	<u><u>\$ 43,444</u></u>

NET ASSETS

Invested in Capital Assets--Net of Related Debt	\$ 848,368
Unrestricted	<u>1,575,705</u>
Total Net Assets	<u><u>\$2,424,073</u></u>

The Notes to Financial Statements are an integral part of this statement.

**YATES TOWNSHIP DIAL-A-RIDE
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN NET ASSETS
For the Year Ended September 30, 2006**

EXHIBIT B

Operating Revenue	
Fares--Demand Response	\$ 33,423
Job Access Reverse Commute Contract	5,382
School Transportation Revenue	303,293
Special Transit Fares	24,597
	<hr/>
Total Operating Revenue	366,695
	<hr/>
Operating Expense	
Salaries, Wages and Fringe Benefits	996,696
Depreciation	222,047
Other	433,510
	<hr/>
Total Operating Expense	1,652,253
	<hr/>
Operating Income (Loss)	(1,285,558)
	<hr/>
Nonoperating Revenue	
Local Contributions	13,385
Tax Levy	145,861
State of Michigan Operating Grants	
Local Bus Operating Assistance (Act 51)	543,865
Specialized Services	14,279
Operating Assistance--Capital Contracts	2,525
Federal Operating Grants	
USDOT Operating Grant	234,567
Rural Transit Assistance Program	150
Operating Assistance--Capital Contracts	10,099
State and Federal Grants--Prior Year Adjustments	133
Interest Earned	46,956
Nontransportation Revenue--Outside Vehicle Maintenance	20,013
	<hr/>
Total Nonoperating Revenue	1,031,833
	<hr/>
Change in Net Assets	(253,725)
	<hr/>
Total Net Assets--October 1, 2005	2,677,798
	<hr/>
Total Net Assets--September 30, 2006	<u><u>\$ 2,424,073</u></u>

The Notes to Financial Statements are an integral part of this statement.

**YATES TOWNSHIP DIAL-A-RIDE
STATEMENT OF CASH FLOWS
For the Year Ended September 30, 2006**

EXHIBIT C

Cash Flows From Operating Activities	
Cash Received From Customers	\$ 378,283
Cash Payments to Employees for Services and Benefits	(996,816)
Cash Payments to Suppliers for Goods and Services	<u>(428,156)</u>
Net Cash Provided by Operating Activities	<u>(1,046,689)</u>
Cash Flows From Noncapital Financing Activities	
Nontransportation Revenue	20,013
Local Contributions	13,385
Tax Levy	197,246
State Grants	715,296
Federal Grants	<u>244,816</u>
Net Cash Provided by Noncapital Financing Activities	<u>1,190,889</u>
Cash Flows From Investing Activities	
Sale or (Purchase) of Investments	398,646
Interest on Cash Equivalents	<u>46,956</u>
Net Cash Provided by Investing Activities	445,602
Net Increase in Cash and Cash Equivalents	589,802
Cash at Beginning of the Year	<u>985,175</u>
Cash at End of the Year	<u><u>\$ 1,574,977</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income (Loss)	\$ (1,285,558)
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities (Noncash Items)	
Depreciation Expense	222,047
Increase in Accounts Receivable	11,588
(Decrease) in Accounts Payable	5,354
(Decrease) in Other Accrued Liabilities	<u>(120)</u>
Net Cash Provided by Operating Activities	<u><u>\$ (1,046,689)</u></u>

The Notes to Financial Statements are an integral part of this statement.

YATES TOWNSHIP DIAL-A-RIDE
NOTES TO FINANCIAL STATEMENTS

NOTE A--REPORTING ENTITY

The Yates Township Dial-A-Ride is, for financial reporting purposes within generally accepted accounting principles, an enterprise fund of Yates Township (Transportation Fund).

The purpose of the Dial-A-Ride is to acquire, operate, and manage a public transportation system within the boundaries of Yates Township and the surrounding areas within Lake County.

The criteria established by the Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if the component unit data were not included. Based on the above criteria, the financial statements of the Yates Township Dial-A-Ride are a component unit of Yates Township.

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation--Government-Wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Revenue, Expenses and Changes in Net Assets) report information of the activities of the Yates Township Dial-A-Ride. There is only one fund reported in the government-wide financial statements.

The Statement of Net Assets presents the Dial-A-Ride's assets and liabilities with the difference being reported as either invested in capital assets or restricted net assets.

The Statement of Revenue, Expenses and Changes in Net Assets demonstrates the degree to which the operating expenses of a given function or segment is offset by operating revenues. Operating expenses are those that are clearly identifiable with a specific function or segment. Operating revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among operating revenues are reported instead as nonoperating revenue.

The financial activities of the Dial-A-Ride are recorded in an enterprise fund. This fund accounts for operations: (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

YATES TOWNSHIP DIAL-A-RIDE
NOTES TO FINANCIAL STATEMENTS

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus/Basis of Accounting--Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary fund relates to charges to customers for providing busing services. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of the busing services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Private-sector standards of accounting and financial reporting, issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Dial-A-Ride has elected to consistently apply all applicable FASB pronouncements issued subsequent to November 30, 1989 in accounting and reporting for its proprietary operation.

When both restricted and unrestricted resources are available for use, it is the Dial-A-Ride's policy to use restricted resources first, then unrestricted resources as needed.

Cash and Investments

Cash is considered to be cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. The statement of cash flows includes both restricted and unrestricted cash and cash equivalents. Investments are stated at fair value and short-term investments are reported at cost, which approximates fair value.

Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the Operating Fund in the government-wide financial statements. Costs relating to maintenance and repairs are charged to expense, whereas those for renewals and betterments, when significant in amount, are capitalized. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

YATES TOWNSHIP DIAL-A-RIDE
NOTES TO FINANCIAL STATEMENTS

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Provisions for depreciation of equipment are computed on the straight-line method.

Depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Operating Facility	12 to 20 years
Buses	3 to 7 years
Maintenance Equipment	3 to 10 years
Office Equipment	6 to 10 years

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of the following: assets and liabilities; the disclosure of contingent assets and liabilities at the date of the financial statements; and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fiscal Year

Yates Township Dial-A-Ride operates on the fiscal year of the grantor, October 1 to September 30. The fiscal year differs from the March 31 fiscal year of the township.

NOTE C--CASH DEPOSITS AND INVESTMENTS

Deposits are carried at cost. Deposits of the Dial-A-Ride are at one bank in the name of the Yates Township Treasurer. Michigan Compiled Laws, Section 129.91 et al., authorizes the township to deposit and invest in the accounts of Federally insured banks, credit unions, savings and loan associations; bonds, securities, and other obligations of the United States, or an agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks, commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Yates Township Dial-A-Ride's deposits are in accordance with statutory authority.

YATES TOWNSHIP DIAL-A-RIDE
NOTES TO FINANCIAL STATEMENTS

NOTE C--CASH DEPOSITS AND INVESTMENTS (Continued)

The risk disclosures for the Dial-A-Ride's deposits, as required by GASB Statement No. 40, are as follows:

	<u>Business-Type Activities</u>
Cash	\$1,574,677
Petty Cash	<u>300</u>
Total Deposits	<u><u>\$1,574,977</u></u>

The bank balance of the Dial-A-Ride's deposits is \$1,599,156, of which \$100,000 is covered by Federal depository insurance.

Investments Authorized by the Dial-A-Ride's Investment Policy

The Dial-A-Ride's investment policy authorizes investment in all those that are authorized by law. As stated above, the Dial-A-Ride did not have any investments in the fiscal year ended September 30, 2006.

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Dial-A-Ride's investment policy does not contain specific provisions to limit the Dial-A-Ride's exposure to credit risk.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Dial-A-Ride's investment policy does not contain specific provisions to limit the Dial-A-Ride's exposure to interest rate risk.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of an entity's investment in a single issuer where the investment is 5% or greater.

The Dial-A-Ride's investment policy requires assets to be diversified to eliminate the risk of loss resulting from over concentration in a specific maturity, individual financial institution(s) or a specific class of securities.

YATES TOWNSHIP DIAL-A-RIDE
NOTES TO FINANCIAL STATEMENTS

NOTE C--CASH DEPOSITS AND INVESTMENTS (Continued)

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Michigan law does not contain requirements that would limit the exposure to custodial credit risk for deposits. However, the asset diversification requirements included in the Dial-A-Ride's investment policy would limit, to some extent, exposure to custodial credit risk for deposits.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Michigan law does not contain legal requirements that would limit the exposure to custodial credit risk for investments. However, the Dial-A-Ride's investment policy does contain a safekeeping and custody section that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools. The Dial-A-Ride is not exposed to custodial credit risk for investments.

NOTE D--ACCOUNTS RECEIVABLE

The accounts receivable balance consists of contract fares, advertising, and regular fares that were outstanding at September 30, 2006.

NOTE E--PROPERTY TAXES

Property taxes are levied each December 1 on the taxable valuation of properties located in the County of Lake as of the preceding December 31. The County of Lake's 2005 ad valorem tax was levied and collectible on December 1, 2005. It is the policy of Yates Township Dial-A-Ride to recognize revenue from the current tax levy in the 2005/2006 fiscal year when the proceeds of this levy are budgeted and made available for the financing of the Dial-A-Ride's operations.

The 2005 real and personal taxable valuation of the County of Lake property amounted to \$421,795,132. Ad valorem taxes of 0.3916 mills were levied for Yates Township Dial-A-Ride operating purposes amounting to \$165,175.

YATES TOWNSHIP DIAL-A-RIDE
NOTES TO FINANCIAL STATEMENTS

NOTE F--DUE TO STATE

The following amounts were due at September 30, 2006:

Federal Section 5311 Operating Assistance	
Contract 02-0093Z10 for Fiscal Year 2003/2004	\$ 24,383
Contract 02-0093Z17 for Fiscal Year 2005/2006	35,744
State Operating Assistance--Fiscal Year 2004/2005	(45,225)
State Operating Assistance--Fiscal Year 2005/2006	<u>(36,325)</u>
Total	<u><u>\$(21,423)</u></u>

NOTE G--CAPITAL ASSETS

Capital asset activity of the primary government for the current year was as follows:

<u>Business-Type Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets Being Depreciated				
Building	\$ 360,211			\$ 360,211
Bus Garage	266,804			266,804
General Equipment	146,032		\$ 121,169	24,863
Buses	1,671,076		120,755	1,550,321
Local Equipment	37,145		37,145	-
Subtotal	<u>2,481,268</u>	<u>\$ -</u>	<u>\$ 279,069</u>	<u>2,202,199</u>
Less Accumulated Depreciation for				
Building	248,206	18,010		266,216
Bus Garage	70,721	13,341		84,062
General Equipment	128,378	5,662	121,169	12,871
Buses	932,397	179,041	120,755	990,683
Local Equipment	31,152	5,993	37,145	-
Subtotal	<u>1,410,854</u>	<u>222,047</u>	<u>279,069</u>	<u>1,353,832</u>
Net Capital Assets Being Depreciated	<u>1,070,414</u>	<u>(222,047)</u>	<u>-</u>	<u>848,367</u>
Business-Type Activities Capital Total				
Capital Assets--Net of Depreciation	<u><u>\$ 1,070,414</u></u>	<u><u>\$ (222,047)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 848,367</u></u>

YATES TOWNSHIP DIAL-A-RIDE
NOTES TO FINANCIAL STATEMENTS

NOTE H--COMPENSATED ABSENCES

The personnel policies manual provides that vacation leave is earned in varying amounts depending on the number of years of service, and whether an employee is full-time or regularly scheduled as part-time.

Administrative policy requires that all vacation leave be used in the same fiscal year earned. In event of retirement or separation, all accrued vacation time will be approved for payment to the employee. In the event of death, accrued vacation will be paid to the full-time employee's estate. There is no pay-off of unused sick leave.

Sick leave is accumulated at the rate of 12 days per year for full-time employees.

NOTE I--EMPLOYEES' RETIREMENT SYSTEM DEFINED CONTRIBUTION

Plan Description

The Yates Township Dial-A-Ride is a participant employer in a defined contribution plan administered by Public Employers Retirement Trust. The administrator prepares separate financial statements as required by State statute. All employees of the Yates Township Dial-A-Ride can participate in the pension plan. As of September 30, 2006, the pension plan's current membership was 12 employees.

A defined contribution plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account, the returns earned on investments of those contributions, and forfeitures of other participants' benefits that may be allocated to such participant's account. To be eligible, a participant in the plan must attain the age of 18 and complete one month of service. Contributions made by an employee vest immediately and contributions made by the Yates Township Dial-A-Ride vest on a six-year graduated vesting schedule. An employee that leaves the employment of the Yates Township Dial-A-Ride is entitled to his contributions and the Yates Township Dial-A-Ride's contributions if vesting requirements are satisfied. The employee may contribute any amount and the employer will match up to 5% of the employee's compensation. The Yates Township Dial-A-Ride's total covered payroll was \$313,994 and the total payroll was \$712,372. The required employer contributions were \$12,117, and the employee contributions were \$12,968. These payroll amounts are based on a calendar year.

YATES TOWNSHIP DIAL-A-RIDE
NOTES TO FINANCIAL STATEMENTS

NOTE J--POST-EMPLOYMENT BENEFITS

Yates Township Dial-a-Ride provides health insurance for employees during retirement providing the employee has completed 20 years of accumulated employment at Yates Township Dial-A-Ride. The insurance will be provided through an insurance program selected by Yates Township Dial-A-Ride. The level of coverage will be the same as what is offered to active employees. Retirees who qualify for Medicare coverage will be required to submit claims through Medicare, with the Yates Township Dial-A-Ride health insurance program providing supplemental health insurance. Employees choosing not to accept this insurance at the time of retirement or termination give up their right to this coverage. Employees choosing to also cover a spouse or other family member will pay the difference in premium between single coverage for them and the coverage they seek. Currently, no retirees participate in this plan.

NOTE K--RISK MANAGEMENT

The Yates Township Dial-A-Ride is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The Dial-A-Ride has purchased commercial insurance for business auto repairs, commercial general liability, commercial inland marine (radio and TV), commercial property (building and contents), computerized business equipment, workers' compensation and medical benefit claims. The Dial-A-Ride participates in the Michigan Transit Pool for claims relating to auto and general liability. The Michigan Transit Insurance Pool (Pool) was created pursuant to the provisions of Public Act 35 of 1951, as amended, and was incorporated under the Michigan Nonprofit Corporation Act, being MCL Sections 450.2101, et seq., as the Michigan Transit Pool, Inc.

The Pool is to provide administrative loss protection programs for the members, to pool losses and claims, to jointly purchase commercial services, including claims adjusting, data processing, risk management consulting, loss prevention, legal and related services. The Michigan Transit Insurance Pool is a separate legal and administrative entity. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past 3 fiscal years.

YATES TOWNSHIP DIAL-A-RIDE
OPERATING EXPENSES
For the Year Ended September 30, 2006

SCHEDULE 1

	Operations	Maintenance	General Administration	Total System
Labor				
Operators' Salaries and Wages	\$ 398,111			\$ 398,111
Other Salaries and Wages		\$ 129,103	\$ 116,522	245,625
Dispatchers Salaries and Wages	68,002			68,002
Fringe Benefits	194,989	46,309	43,660	284,958
Services	18,608	17,182	4,312	40,102
Materials and Supplies Consumed				
Fuel and Lubricants	160,033			160,033
Tires and Tubes	16,789			16,789
Other Materials and Supplies	31,325	53,848	7,510	92,683
Utilities	20,982		453	21,435
Casualty and Liability Costs	97,100			97,100
Purchased Transportation Services	745			745
Miscellaneous Expenses	585	1,684	2,354	4,623
Depreciation	222,047			222,047
Total	\$ 1,229,316	\$ 248,126	\$ 174,811	\$ 1,652,253

YATES TOWNSHIP DIAL-A-RIDE
NET ELIGIBLE COST COMPUTATIONS OF GENERAL OPERATIONS
For the Year Ended September 30, 2006

SCHEDULE 2

	Federal Section 5311	State Operating Assistance
Operating Expenses		
Labor	\$ 711,738	\$ 711,738
Fringe Benefits	284,958	284,958
Services	40,102	40,102
Materials and Supplies	269,505	269,505
Utilities	21,435	21,435
Casualty and Liability Costs	97,100	97,100
Purchased Transportation	745	745
Miscellaneous	4,623	4,623
Depreciation	222,047	222,047
Total Operating Expenses	<u>1,652,253</u>	<u>1,652,253</u>
Less: Ineligible Expenses		
Depreciation	209,219	209,219
Other Operating Expenses Paid by Capital Contracts	12,624	12,624
Unauthorized Expenses	4,986	4,986
Dues	115	115
Audit	5,680	
Total Ineligible Expenses	<u>232,624</u>	<u>226,944</u>
Net Eligible Expenses	<u>1,419,629</u>	<u>1,425,309</u>
Less: Project Revenue		
Job Access Reverse Commute Third-Party Contract	5,382	5,382
Specialized Services	14,279	14,279
Non-Transportation Revenue--Outside Vehicle Maintenance Services	20,013	20,013
RTAP Training Grant	150	150
Total Project Revenue	<u>39,824</u>	<u>39,824</u>
Net Eligible Federal Section 5311 Expenses	<u>\$1,379,805</u>	
Maximum Section 5311 Reimbursement (17%)	<u>\$ 234,567</u>	
Net Eligible State Operating Expenses		<u>\$1,385,485</u>
Maximum State Operating Assistance (39.2545%)		<u>\$ 543,865</u>

**YATES TOWNSHIP DIAL-A-RIDE
MILEAGE DATA--UNAUDITED
For the Year Ended September 30, 2006**

SCHEDULE 3

	PUBLIC TRANSPORTATION MILEAGE
<u>DEMAND RESPONSE</u>	
FIRST QUARTER	119,252
SECOND QUARTER	117,374
THIRD QUARTER	104,000
FOURTH QUARTER	<u>111,465</u>
TOTAL DEMAND RESPONSE	<u>452,091</u>

The methodology used for compiling mileage has been reviewed and found to be an adequate and reliable method for recording vehicle mileage.

YATES TOWNSHIP DIAL-A-RIDE
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS (1,2)
For the Year Ended September 30, 2006

SCHEDULE 4

	Federal CFDA Number	State Grantor Number	Program or Award Amount	Federal Receipts/ Revenue	State Receipts/ Revenue	Disbursements/ Expenditures	
US Department of Transportation							
State and Federal Operating Assistance							
Computations Based on Operating Expenses							
Passed Through MDOT							
Operating Assistance (Section 5309)--Capital Contract	20.500	2002-0093Z7	\$553,319	\$ 1,990	\$ 497	\$ 2,487	(3)
Operating Assistance (Section 5311)--Capital Contract	20.509	2002-0093Z8	25,000	5,102	1,275	6,377	(3)
Operating Assistance (Section 5311)--Capital Contract	20.509	2002-0093Z11	60,000	3,007	753	3,760	(3)
Operating Assistance--(Section 5311)	20.509	2002-0093Z10	280,728	234,567	(4)	234,567	
Rural Transit Assistance Program	20.509			150		150	
Michigan Department of Transportation							
Operating Assistance--Act 51	N/A				543,865	543,865	(5)
Specialized Services	N/A	2002-0093Z16	14,421		14,279	14,279	
Net Unreimbursed Eligible Operating Expenses						580,000	
Total Operating Assistance				244,816	560,669	1,385,485	
Total Capital and Operating Assistance				\$ 244,816	\$ 560,669	\$ 1,385,485	

The Notes to Schedule of Expenditures of Federal and State Awards are an integral part of this statement.

YATES TOWNSHIP DIAL-A-RIDE
NOTES TO SCHEDULE OF EXPENDITURES OF
FEDERAL AND STATE AWARDS

1. The accompanying Schedule of Expenditures of Federal and State Awards presents the activity of all Federal and State awards programs of Yates Township Dial-A-Ride (DAR). Federal and State awards received directly from Federal or State agencies, as well as Federal or State awards passed through other government agencies, are included on the schedule.
2. The accompanying Schedule of Expenditures of Federal and State Awards is presented using the accrual basis accounting which is described in Note B of the DAR's basic financial statements.
3. The operating assistance listed under the capital contracts is for equipment purchased under the grant agreements costing less than \$5,000 and not capitalized.
4. Maximum Section 5311 operating assistance revenue can be 17% of Net Eligible Expenses as presented in Schedule 2, not to exceed the local match or contract limit. The Federal Section 5311 operating assistance of \$234,567 was recognized based on the contract limit.
5. State operating assistance of \$543,865 was recognized based on the net eligible costs computation as presented in Schedule 2. The actual revenue to be received from the State is uncertain because the revenue is based on a fixed amount of state-wide available funding. It could be as low as the DAR's 1997 floor amount or as high as the statutory cap of 60% of eligible operating expenses. MDOT will recalculate the State operating assistance percentage in Schedule 2 after audited close-outs based on state-wide eligible expenses.



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

ROBERT J. KLEINE
STATE TREASURER

November 9, 2006

Yates Township
Dial-A-Ride
P.O. Box 147
Idlewild, Michigan 49642

RE: Report on Internal Control Over Financial Reporting and Compliance and
Other Matters Based on an Audit of the Financial Statements Performed in
Accordance with Government Auditing Standards

Dear Board Members:

We have audited the financial statements of the Yates Township Dial-A-Ride, a component unit of Yates Township, Lake County, as of and for the year ended September 30, 2006, which collectively comprise Yates Township Dial-A-Ride's basic financial statements and have issued our report thereon dated November 9, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Yates Township Dial-A-Ride's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Yates Township Dial-A-Ride's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Yates Township Dial-A-Ride's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all matters in the internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we noted certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that could adversely affect the Yates Township Dial-A-Ride's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally

accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Yates Township Dial-A-Ride's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying comments and recommendations to be significant deficiencies in internal control over financial reporting which are listed as 05-01, 05-02, and 05-03.

A material weakness is a significant deficiency or combination of significant deficiencies, which results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Yates Township Dial-A-Ride's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily identify all significant deficiencies that are also considered to be material weaknesses. However, we consider none of the significant deficiencies described above to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Yates Township Dial-A-Ride's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations as items 04-01 and 06-01.

We noted another matter that we reported to management of the Yates Township Dial-A-Ride which is described in the accompanying comments and recommendations as item 06-02.

This report is intended solely for the information and use of the management, Yates Township Dial-A-Ride's board, others within the Dial-A-Ride, Federal awarding agencies, and State and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division

YATES TOWNSHIP DIAL-A-RIDE
COMMENTS AND RECOMMENDATIONS

OTHER REPORTABLE CONDITIONS

Although the following are not considered material weaknesses in internal controls, our audit disclosed certain other reportable conditions, which we wish to point out for consideration.

Receivables--Collection Policy

Finding 05-01

Condition: The Dial-a-Ride has no formal policy or procedures to review receivables and try to collect the unpaid balances or write-off the uncollectible amounts.

Criteria: Generally Accepted Accounting Principles (GAAP) require receivables to be closely monitored and maintained and, if necessary, written-off to properly represent the financial condition of the balance sheet.

Recommendation: We recommend that the Dial-a-Ride establish formal policies and procedures to review the accounts receivable to determine the course of action necessary to collect the unpaid balances or write-off the accounts.

Accrued Wages

Finding 05-02

Condition: The accrued wages were not recorded at the end of the fiscal year. The account balance was the same as the prior year.

Criteria: Generally accepted accounting principles (GAAP) requires that revenues and expenses be recognized in the year incurred.

Recommendation: We recommend that the Yates Township Dial-A-Ride implement a procedure to record the accrued wages at the end of the fiscal year and remove the prior year balances.

Payroll Liabilities

Finding 05-03

Condition: The Yates Township Dial-A-Ride had running balances in its payroll withholding liability items. Seven liability accounts had debit balances as of September 30, 2006.

Criteria: The payroll liability accounts are designed to be a holding account for payroll items until they are paid. Once paid, the balances in these line-items should be eliminated.

Recommendation: We recommend that the Dial-A-Ride monitor these payroll liability accounts to ensure that all payroll withholding amounts are properly recorded and properly paid on at least a monthly basis. The Dial-A-Ride should also analyze and adjust incorrect liability accounts to agree with supporting detail.

YATES TOWNSHIP DIAL-A-RIDE

COMMENTS AND RECOMMENDATIONS

OTHER REPORTABLE CONDITIONS (Continued)

Concentration of Credit Risk

Finding 06-03

Condition: The Dial-A-Ride has deposits in only one bank and is federally insured to \$100,000. The bank amount as of September 30, 2006 was \$1,574, 977 leaving \$1,474,977 uninsured.

Criteria: GASB Statement No. 40 indicates that a "Concentration of Credit Risk" is the risk of loss attributed to the magnitude of an entity's investment in a single issuer where the investment is 5% or greater.

The Dial-A-Ride's investment policy requires assets to be diversified to eliminate the risk of loss resulting from over concentration in a specific maturity, individual financial institution(s) or a specific class of securities.

Recommendation: We recommend that the Dial-A-Ride diversify their deposits to a higher degree.

STATUTORY COMPLIANCE

Unlawful Expenses

Finding 04-01

Condition: During our payroll testing, we found that Yates Township Dial-a-Ride paid employees a Christmas Bonus of \$3,075. We also found that \$1,911 was paid for a Christmas party at the Holiday Inn. The grand total of expenditures is \$4,986.

Condition: According to Attorney General Opinion No. 2346 of 1956, there is no statutory provision authorizing township transits (or local units of government) to make expenditures from public funds for the private purpose of purchasing Christmas gifts/parties. In addition to the lack of statutory authority, the expenditure of public funds for such a purpose is unlawful in principle. There can be no furtherance of the general public welfare of the township or its citizens in the expenditure of money of public funds for parties for private occasions, however worthy the motive of the giver.

Recommendation: We recommend that the Dial-A-Ride discontinue the practice of funding Christmas bonuses and parties using the Dial-A-Ride's funds.

Unlawful Loan of Dial-A-Ride Funds

Finding 06-01

Condition: In June 2006, the Yates Township Dial-a-Ride loaned the Volunteer Services Program \$10,000 to assist in covering volunteer service expenses. No formal agreement was made between Volunteer Service Program and the Yates Township Dial-a-Ride to provide for the covering of expenses.

YATES TOWNSHIP DIAL-A-RIDE

COMMENTS AND RECOMMENDATIONS

STATUTORY COMPLIANCE (Continued)

Criteria: According to Constitutional provisions, Michigan Constitution of 1963, Art. 7, Sec. 26: “Except as otherwise provided in this constitution, no city or village (or any local unit of government) shall have the power to loan its credit for any private purpose or, except as provided by law, for any public purpose.”

Directive: We direct the Yates Township Dial-a-Ride to discontinue the practice of covering the expenses of another private entity unless specifically approved in the agreement.

Social Security Number Privacy Policy

Finding 06-02

Condition: The Yates Township Dial-a-Rides has not adopted a Social Security Number Privacy Policy.

Criteria: According to the Social Security Privacy Act, 2004 PA 454, MCL 455.84, Section 4, subsection 1, beginning January 1, 2006, a person in the ordinary course of business who obtains or retains information about one or more social security numbers must create a policy that does at least all of the following:

- (a) Ensures to the extent practicable the confidentiality of the social security numbers.
- (b) Prohibits unlawful disclosure of the social security numbers.
- (c) Limits who has access to information or documents that contain the social security numbers.
- (d) Describes how to properly dispose of documents that contain the social security numbers.
- (e) Establishes penalties for violation of the privacy policy.

Section 4, subsection 2, requires a person that creates a privacy policy under subsection 1 shall publish the privacy policy in an employee handbook, in a procedures manual, or in one or more similar documents, which may be made available electronically.

Directive: We direct that Yates Township Dial-a-Ride adopt a Social Security Number Privacy Policy implementing at least the minimum protections and procedures listed above.